COE Licensee Solicitation
Policies and Guidelines 2007-08

During the 2007 Legislation session, the Legislature passed, and Governor Huntsman subsequently signed, House Bill 125, Centers of Excellence Amendments. In this bill, the Legislature authorized the Governor's Office of Economic Development Centers of Excellence program to provide direct grants to licensees and sub-licensees of technologies developed in Utah's colleges and universities in order to facilitate the transition of these technologies into industry for the purpose of economic development. For the Centers of Excellence program, this is primarily measured in the creation of great jobs for Utah citizens.

This document outlines the key policies and guidelines for the 2007-08 Centers of Excellence Licensee Solicitation. In addition, these terms are the basic terms that will be included in the contract executed between the COE program and the grant recipient. The contract will also include details of the return of grant provisions specified in the statute at http://le.utah.gov/~2007/bills/hbillenr/hb0125.htm, which apply if a company receiving such a grant does not stay in the state at least 5 years.

1) Any licensee, or sub-licensee ("the Company" or "proposing Company"), of a technology that has been supported by the COE program is eligible - this includes technology emerging from: former Centers, current Centers (seeking renewal or not), as well as all recipients of business team support (since 2005) and/or the older "planning grants" (prior to 2005). See http://le.utah.gov/~2007/bills/hbillenr/hb0125.htm lines 81-86 to read definitions of licensee and sub-licensee.

2) The licensee grants are intended to "defray the real and perceived risk" of a business licensing a university developed technology and taking it to market - so it is designed for the EARLY phase of the licensing and go to market process. A license that has been in place for a lengthy period of time would not be eligible. These funds are intended to compensate for the difficulty in obtaining angel/seed funding in Utah (for startups) or the perceived risk for an existing company in licensing these technologies as compared to their cost of capital.

3) A university license does NOT have to be in place during the proposal process, but DOES have to be in place before any funds can be released. A letter of support from the professor and/or TCO and/or direct licensee (if applicable) would be helpful in convincing the council that a license will be completed. However, the COE program does not want to jeopardize or interfere in licensing negotiations, so this is not required.

If the proposing Company is a sub-licensee of a Direct License (for example, a professor has licensed all fields of use of a technology into a holding company, and the proposing company is going to sub-license one or more fields of use), then it is HIGHLY RECOMMENDED that the Direct License already be in place and that either the sub-license be in place or a letter of support from the Direct Licensee is available. The goal is to convince the Council that the proposing Company WILL have rights to the technology which is proposed.

In either case, the Council will want to see terms that are favorable to long term success of the proposing Company and will NOT be supportive of terms that require meaningful cash payments up front. Acceptable long term royalties and university equity positions will be more likely to be viewed as conducive to success. COE funding + match should not flow back as milestone payments.

4) Matching funds of 1:1 are required. For every $1 of COE grant support, another $1 from the following sources is required:

- Revenue that is substantially related to the licensed technology and proposed business plan (including contracts such as an SBIR)
- Founder capital contributions in CASH (NOT in kind)
- Outside/arms length funding (cash).

Matching funds may NOT be a loan, but must be either equity or revenue (that is, there can be no repayment clause). NO in kind contributions will be considered for matching for this grant. State-supported university contributions and other state grants will NOT be counted as matching funds, but state CONTRACTS are permitted if they are revenue producing contracts (i.e. the State is a customer). The goal of the matching provision is that the COE funds will be used to leverage the private sector and accelerate the "go to market" success of these technologies.

5) Funds from the COE grant will be released when matching funds are received by the proposing Company and such receipt is documented to the COE program. Funds that are eligible to be considered as matching will include funds received by the proposing Company as early as April 1, 2007 and extending through the grant year, June 30, 2008.

6) The State will NOT take an equity position - the State's return on the COE program is in job creation and economic development for the state of Utah. It is important to review http://le.utah.gov/~2007/bills/hbillenr/hb0125.htm section "63-38f-704 Administration – Grants, section 2)d)" to read the terms of grants to licensees or sub-licensees, including the provision for return of grant if the grant recipient does not stay within the state for at least 5 years.

7) Management team: The COE advisory council will conduct the review of all proposals and make recommendations to GOED about funding decisions. This council is composed of seasoned business executives in the technology industry and they expect to see seasoned, experienced management teams in order to entrust taxpayer funds to the proposing Company.

It is expected that proposals which include seasoned management teams with demonstrated experience in business building and successful technology commercialization are those which are most likely to receive funding. Relevant skills and experience will include capital acquisition (fund raising, business financing etc), technology marketing and sales, company formation and company exit (M&A, IPO etc), in addition to any technology-related expertise. In addition, business leadership should be wholly committed to the proposing company, meaning that they do not have other employment of more than 49% time or just under 20 hours per week - similar to SBIR requirements.

8) Competitive process and funding: The new availability of grants to licensees did NOT come with additional funds, therefore the same $3 million of funding is available to fund all university based Centers, as well as licensee grants. Therefore, the most qualified teams with the best potential for commercial success will be funded - whether in a proposing Company or university based team.

9) Business Plan: The COE Licensee Grants will not have a detailed business plan template. The proposing company should be able to provide a business plan and executive summary that they would also provide to outside investors. The quality of this business plan (and associated presentation) will be part of the evaluation of the proposing Company's likelihood of success. That said, the time frame for the 2007-08 submission cycle is relatively short and allowances may be made for this short time frame.

10) Founder Compensation: Not more than 50% of the COE funding will be used for compensation for a founder who is wholly committed to the proposing Company (meaning that they do not have other employment of more than 49% time or just under 20 hours per week - similar to SBIR requirements). In addition, none of the required 1:1 matching funds may be used for founder compensation. Additional funding over and above this COE Funding + Required Match may be used for reasonable additional founder compensation. If there are two founders, it may be permitted by the Council for as much as 100% of the COE funding to be used for founder compensation for TWO founders, as long as both are wholly committed to the proposing Company and generally only when there is a mix of skills between the two founders that is required for the success of the company (such as business skills in one founder and technical skills in

another founder). It is expected that founder compensation will be below market rate for a comparable industry position, as the COE grant does not require equity, thus providing a favorable environment for the founder(s). These terms will be enforced by contract.

11) Use of funds. The proposal will include a standard business plan and will also include a separate proposed use of funds of the COE Grant + Matching funds so that the Council can understand the purpose of the grant.